

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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May 7, 2009

Ms. Marjie Kim
Deputy Executive Director
Merced County Association of Governments
369 West 18th Street
Merced, CA 95340

Re: Merced County Association of Governments
Audit of Indirect Cost Allocation Plan Fiscal Year 2009
File Number: P1190-0704

Dear Ms. Kim:

We have audited the Merced County Association of Government's (MCAG) Indirect Cost Allocation Plan (ICAP) for the fiscal year (FY) ending June 30, 2009, to determine whether the ICAP is presented in accordance with 2 Code of Federal Regulations (CFR) Part 225 (formerly Office of Management and Budget Circular A-87) and the California Department of Transportation's (Department) Local Program Procedures (LPP) 04-10. MCAG management is responsible for the fair presentation of the ICAP. MCAG proposed an indirect cost rate of 33 percent of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of MCAG. Therefore, we did not audit and are not expressing an opinion on MCAG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by MCAG, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of MCAG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a limited review of MCAG's Overall Work Program for FY 08/09, inquiries of MCAG personnel, reliance placed on MCAG's single audit report for the FY ended June 30, 2007, and prior audit field work performed by Department staff in September 2005. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our finding and recommendation take into consideration MCAG's response to our draft finding. Our finding, recommendation, a summary of MCAG's response, and our analysis of the MCAG response are detailed below.

AUDIT RESULTS

Based on audit work performed, MCAG's ICAP for the FY ending June 30, 2009, is presented in accordance with 2 CFR Part 225 and LPP 04-10. The approved indirect cost rate is 33 percent of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

MCAG requested a provisional rate of 33 percent on August 28, 2008, for FY 2008/09. Audits and Investigations approved the provisional rate on September 4, 2008. Since the provisional rate and final approved rate are the same MCAG is not required to perform a reconciliation of prior reimbursed claims.

Finding

MCAG's FY 06/07 carry-forward pool of indirect costs included \$85,311 of unallocable Professional Services costs associated with the Yosemite Area Regional Transportation System, which is a separate entity from the MCAG. Including the unallocable costs in the calculation of the FY 06/07 carry-forward resulted in an overstatement of the FY 08/09 indirect cost rate. 2 CFR Part 225 Appendix A (C) (1) describes factors affecting allowability of costs and states, in part, that a cost must be allocable to Federal awards under the provisions of this Circular, in order to be allowable and (C) (3) describes factors affecting allocability of costs states, in part, that costs are chargeable or assignable to cost objectives in accordance with relative benefits received.

Recommendation

MCAG must ensure that all costs not meeting the criteria's established by 2 CFR, Part 225 be excluded from all future ICAPs submitted to the Department for review and approval.

MCAG's Response

The MCAG agreed with the finding and revised the ICAP accordingly.

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Analysis of Response

The finding and recommendation remain.

This report is intended solely for the information of MCAG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved ICAP for your files. Copies were sent to the Department's District 10, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Cliff Vose, Audit Manager, at (916) 323-7917.


MARYANN CAMPBELL-SMITH
Chief, External Audits

Attachments

- c: Brenda Bryant, Financial Services Director, Federal Highway Administration
- Sue Kiser, Planning and Right of Way Director, Federal Highway Administration
- Dan Mundy, Branch Chief, Rural Transit and Procurement, Division of Mass Transportation
- David Saia, Senior Transportation Engineer, Policy Development and Quality Assurance, Division of Local Assistance
- Jenny Tran, Associate Accounting Analyst, Local Assistance Accounting Branch, Division of Accounting.
- Andrew Knapp, Associate Transportation Planner, Regional and Interagency Planning, Division of Transportation Planning
- Tom Dumas, California Department of Transportation, District 10 Senior for Intermodal Planning.

**MERCED COUNTY ASSOCIATION OF GOVERNMENTS
(MCAG)**

**Metropolitan Planning Organization (MPO)
Indirect Cost Plan**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the City and approved by the Department.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward	7/01/08 to 6/30/09	33%	All Programs

* Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation:

FY 2008/2009 Budgeted Indirect Costs	\$ 499,094	<See indirect cost calculation detail Attachment A - page 3>
Carry Forward from FY 2006/2007	<u>181,975</u>	<Carryforward calculation Attachment A - page 2>
Estimated FY 2008/2009 Indirect Costs	\$ 681,069	
FY 2008/2009 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$2,060,000	<See indirect cost calculation detail Attachment A - page 3>
FY 2008/2009 Indirect Cost Rate	33%	

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2008/2009 (July 1, 2008 to June 30, 2009) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
-

- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Merced County Association of Governments

Signature: [Signature]

Reviewed, Approved and Submitted by:

Name of Official: Jesse B. Brown

Title: Executive Director

Date of Execution: 07/18/08

Signature: [Signature]

Prepared by:

Name of Official: Terrie Hagins

Title: Administrative Services Supervisor

Telephone No.: (209) 723-3153 Ext 317

INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

[Signature]
Signature

Reviewed and Approved by:

MAXYANN CAMPBELL-SMITH
Name of Audit Manager

Title: Chief, External Audits

Date: 8 MAY 2009

Phone Number: (916) 323-7105

[Signature]
Signature

Reviewed and Approved by:

Elena Guerrero
Name of Auditor

Title: Auditor

Date: May 8, 2009

Phone Number: (916) 323-7954

ATTACHMENT A
ICAP SUBMISSION PACKAGE

Page 2 of ICAP Certification Letter, G: Calculation of Rate:

FY 08/09 Budgeted Indirect Costs	\$	499,094	<See Indirect Cost Calculation detail page 3>
Carry Forward From FY 2008/07	\$	181,975	<Carryforward Calculation page 2>
Adjusted Indirect Costs for FY 2008/09	\$	681,069	
FY 2008/09 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$	2,060,000	<See Indirect Cost Calculation detail page 3>
FY 2008/09 Indirect Cost Rate		33%	

ATTACHMENT A
ICAP SUBMISSION PACKAGE

Page 2 of ICAP Certification Letter, G: Calculation of Rate:

FY 08/09 Budgeted Indirect Costs	\$ 499,094	<See Indirect Cost Calculation detail page 3>
Carry Forward From FY 2006/07	<u>\$ 181,975</u>	<Carryforward Calculation page 2>
Adjusted Indirect Costs for FY 2008/09	\$ 681,069	
FY 2008/09 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$ 2,060,000	<See Indirect Cost Calculation detail page 3>
FY 2008/09 Indirect Cost Rate	33%	

ATTACHMENT A
ICAP SUBMISSION PACKAGE

FY 08/09 INDIRECT COST CARRYFORWARD CALCULATION FOR FY 06/07

	Actual FY 06/07	Reference	ACTUAL FY 07/08	Estimated FY 08/09	Reference
Approved ICAP Rate	24%	FY 06/07 approve ICAP rate			
Beginning Carryforward (FY04/05)	\$ 96,943	FY 06/07 approved ICAP		\$ 181,975	FY 06/07 carryforward **
Actual Indirect Costs	\$ 449,818	<Actual cost detail from page 4>		\$ 499,094	<from ICAP rate detail page 3>
Total Indirect Costs	\$ 546,761		\$ -	\$ 681,069	
Actual Direct Salaries & Fringe Benefits					
Approved Rate	\$ 1,519,942	<Actual cost detail from page 4>		\$ 2,060,000	<from ICAP rate detail page 3>
Recovered Indirect Costs (approved rate x actual base)	24%	FY 06/07 approved ICAP rate		33%	FY 08/09 Calculated ICAP Rate (Total Indirect costs / Actual Direct Salaries & fringe Benefits)
Ending Carryforward (total Indirect costs - Recovered Indirect Costs)	\$ 364,786				
	\$ 181,975	To FY 08/09 rate calculation <To page 1>			

* As required by 2 CFR, Part 225.55 all costs and rates identified on this page are referenced to the schedule(s) and document(s) that support the stated amount and rate.

**The costs for FY 08/09's Beginning Carryforward come from the FY 06/07 actual costs, i.e. two years prior to the ICAP year submitted. The actual direct labor costs and actual indirect costs must be supported by audited financial statements. If the audited financial statements do not provide details then the audited general ledger detail must be provided and reconciled to the audited financial and/or any schedule(s) included in the ICAP package. Any differences in the statements amounts must be fully explained. Any adjustments made to audited figures should also be fully explained (i.e. unallowable costs).

ATTACHMENT A
ICAP SUBMISSION PACKAGE
INDIRECT COST ALLOCATION PLAN DETAIL FY 08/09

Item	Direct Expense	Reference:	Indirect Expense	Reference:	Unallowable Expense	Reference/ Footnote	TOTAL	Reference:
Salaries	\$ 1,401,500		\$ 218,000		\$ 5,500		\$ 1,625,000	<Approved OWP at
Fringe Benefits	\$ 856,500		\$ 61,000		\$ 1,500		\$ 721,000	Page 9>
Total	\$ 2,258,000	<To page 1>	\$ 279,000		\$ 7,000	See footnote #1	\$ 2,348,000	
Direct Costs								
Communication	\$ 19,000		\$ 5,500				\$ 24,500	
Janitorial Expense			\$ 9,500				\$ 9,500	
Insurance-Other			\$ 28,500				\$ 28,500	
Maintenance-Equipment			\$ 6,000				\$ 6,000	
Maintenance-Auto			\$ 500				\$ 500	
Maintenance-Structure			\$ 5,000				\$ 5,000	
Membership			\$ 1,000				\$ 1,000	
Office Expense-General	\$ 27,000		\$ 25,000		\$ 7,000	See footnote #2	\$ 52,000	
Office Expense-Equipment			\$ 1,000				\$ 1,000	
Professional & Special Services			\$ 45,000				\$ 3,030,203	
Audit	\$ 2,985,203		\$ 40,000				\$ 57,500	
Publication/Legal Notices	\$ 17,500		\$ 1,000				\$ 6,250	
Rents/Leases-Equipment	\$ 5,250		\$ 17,200				\$ 19,450	
Use Allowance	\$ 2,250		\$ 11,390				\$ 11,390	
Interest Costs			\$ 8,004				\$ 8,004	
Rents/Leases-Structure & Grounds			\$ -				\$ -	
Special Departmental Expense	\$ 219,205		\$ 1,000				\$ 220,205	
Transportation & Travel	\$ 63,520		\$ 2,500				\$ 66,020	
Utilities			\$ 12,000				\$ 12,000	
Fixed Assets			\$ -				\$ -	
Contingencies			\$ -				\$ -	
Subtotals	\$ 3,338,928		\$ 220,094		\$ 6,000	See footnote #3	\$ 3,572,022	
			\$ 13,000		\$ -		\$ -	
TOTAL COSTS	\$ 5,398,928	<To page 1>	\$ 498,094		\$ 20,000		\$ 5,918,022	

#1 - Executive Director - indirect time not allowable
#2 - Memberships in amount of \$7,000 from 08/09 are not included and/or removed from indirect costs per single audit per Caltrans Audit - Calcoq, NARC & Asso. of Metro Planning Org memberships not allowable
#3 - Contingencies not allowable

ATTACHMENT A
ICAP SUBMISSION PACKAGE

FY 06/07 ACTUAL COSTS DETAILED FOR FY 08/08 CARRYFORWARD CALCULATION <See Note 1 Below>

Item	Direct Expense	Reference:	Indirect Expense	Reference:	Unallowable Expense	Reference/ Footnote	TOTAL	Reference:
Salaries	\$ 1,176,168	<Audited Financial	\$ 230,128				\$ 1,406,296	
Fringe Benefits	\$ 343,774	document at	\$ 87,283				\$ 431,057	
Total	\$ 1,519,942	page 60>	\$ 317,411		\$ -		\$ 1,817,353	
Direct Costs								
Communication	\$ 19,000		\$ 3,933				\$ 22,933	
Janitorial Expense			\$ 9,051				\$ 9,051	
Insurance-Other			\$ 10,276				\$ 10,276	
Maintenance-Equipment			-				\$ -	
Maintenance-Auto			-				\$ -	
Maintenance-Structure			\$ 2,515				\$ 2,515	
Membership			\$ 1,043				\$ 1,043	
Office Expense-General	\$ 27,000		\$ 13,195		\$ 7,000 See footnote #1		\$ 40,195	
Office Expense-Equipment			\$ 522				\$ 522	
Professional & Special Services	\$ 2,985,203		\$ 28,346				\$ 3,013,549	
Audit	\$ 17,500		\$ 23,930				\$ 41,430	
Publication/Legal Notices	\$ 5,250		\$ (59)				\$ 5,191	
Rentals/Leases-Equipment	\$ 2,250		\$ 20,533				\$ 22,783	
Use Allowance			\$ 18,463				\$ 18,463	
Interest Costs			\$ 8,847				\$ 8,847	
Rentals/Leases-Structure & Grounds			\$ 1,056				\$ 1,056	
Special Departmental Expense	\$ 219,205		\$ 425				\$ 219,630	
Transportation & Travel	\$ 63,520		\$ 10,578				\$ 74,098	
Utilities			\$ 2,873				\$ 2,873	
Fixed Assets			-				\$ -	
Contingencies					\$ 6,000 See footnote #2		\$ 6,000	
Subtotals	\$ 3,338,928		\$ 152,427		\$ 13,000		\$ 3,504,355	
TOTAL COSTS	\$ 4,858,870		\$ 449,818 <To page 1>		\$ 13,000		\$ 5,321,688	

#1 - Memberships in amount of \$7,000 from 06/07 are not included and/or removed from indirect costs per single audit per Caltrans Audit - Caltrans, NARC & Asso. of Metro Planning Org memberships not allowable

#2 - Contingencies not allowable